

Message Text

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PAGE 01 STATE 123837
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INFO OCT-01 AF-10 ARA-14 EA-12 EUR-12 NEA-11 ISO-00
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FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

AMEMBASSY ABIDJAN

AMEMBASSY BANGKOK

AMCONSUL BELIZE

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL CALI

AMEMBASSY CANBERRA

AMCONSUL CAPE TOWN

AMEMBASSY COPENHAGEN

AMCONSUL DURBAN

USMISSION GENEVA

AMCONSUL GUAYAQUIL

AMEMBASSY KHARTOUM

AMEMBASSY LILONGWE

AMEMBASSY LONDON

AMEMBASSY MAPUTO

AMEMBASSY MANILA

AMEMBASSY MBABANE

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA

AMEMBASSY PARIS

UNCLASSIFIED

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PAGE 02 STATE 123837

AMEMBASSY PORT LOUIS

AMEMBASSY PRETORIA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

AMEMBASSY SUVA

AMEMBASSY TAIPEI
AMEMBASSY ANTANANARIVO
AMEMBASSY TOKYO
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA
AMEMBASSY WELLINGTON
AMEMBASSY PARIS

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OECD, EC

E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: ADMINISTRATION TESTIMONY ON SUGAR

FOLLOWING IS FOR INFORMATION OF POSTS AND MAY BE USED IN
BRIEFING HOST GOVERNMENT OFFICIALS:

1. ON FEBRUARY 13, SENATOR FRANK CHURCH HELD THE INITIAL
HEARING ON SENATE ADVICE AND CONSENT TO RATIFICATION
OF THE INTERNATIONAL SUGAR AGREEMENT. AT THAT TIME,
HE ANNOUNCED THAT HE WOULD HOLD NO FURTHER HEARINGS ON
THE ISA UNTIL THE ADMINISTRATION PROPOSED A CONTINGENCY
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PAGE 03 STATE 123837

DOMESTIC PROGRAM TO BE USED IN THE EVENT THE ISA DID
NOT ACHIEVE ITS OBJECTIVES.

2. WHILE THE ADMINISTRATION WAS WORKING TO DEVELOP
SUCH A CONTINGENCY PROGRAM, U.S. SUGAR BEET AND CANE
GROWERS DEVELOPED THEIR OWN PROPOSALS FOR A DOMESTIC
PROGRAM. THEIR BILL, KNOWN AS THE SUGAR STABILIZATION ACT
OF 1978 (S.2990), WAS INTRODUCED EARLIER THIS MONTH
BY SENATOR CHURCH AND 27 COSPONSORS. THE BILL CALLS FOR
AN INDEXED MINIMUM PRICE FOR U.S. SUGAR BEGINNING AT
17 CENTS PER POUND. THIS PRICE WOULD BE SUPPORTED

BY GLOBAL IMPORT QUOTAS AND INCREASED IMPORT FEES
AND DUTIES. HEARINGS OF THE SUBCOMMITTEE ON TOURISM
AND SUGAR OF THE SENATE FINANCE COMMITTEE WERE HELD
MAY 11 TO CONSIDER THE INDUSTRY PROPOSAL, WHICH IS
INCORPORATED IN A BILL WHICH WOULD ALSO PROVIDE
IMPLEMENTING LEGISLATION FOR U.S. PARTICIPATION
ON THE ISA.

3. AT THE MAY 11 HEARINGS, ASSISTANT SECRETARY KATZ
TESTIFIED THAT THE INTERNATIONAL SUGAR AGREEMENT

REMAINED THE FOUNDATION OF U.S. SUGAR POLICY. HE SAID THE ADMINISTRATION BELIEVES THE ISA IS A GOOD AGREEMENT AND THAT IT HAD A GOOD CHANCE OF MEETING THE OBJECTIVES OF OUR SUGAR POLICY. HE ADDED, HOWEVER, THAT THERE WERE MANY FACTORS AFFECTING THE MARKET AND THERE COULD BE NO GUARANTEE THAT THE ISA WILL OPERATE AS INTENDED IN ALL RESPECTS, OR THAT ANY SPECIFIC PRICE LEVEL WOULD BE ACHIEVED. FOR THIS REASON, THE ADMINISTRATION ACCEPTED THE NEED TO HAVE A CONTINGENT DOMESTIC PROGRAM.

4. KATZ STRESSED, HOWEVER, THAT ANY CONTINGENCY PROGRAM MUST BE CONSISTENT WITH THE ISA. HE NOTED THAT THE PRICE PROVISIONS OF S.2990 WERE FAR HIGHER
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PAGE 04 STATE 123837

THAN THOSE IN THE AGREEMENT. SECONDLY, KATZ STRESSED THAT THE WAY IN WHICH DOMESTIC PRICES WOULD BE SUPPORTED UNDER S.2990 COULD HAVE A SUBSTANTIAL NEGATIVE IMPACT ON THE WORLD MARKET. GLOBAL QUOTAS ARE DIFFICULT, IF NOT IMPOSSIBLE, TO ADMINISTER AND WOULD PENALIZE SMALLER AND MORE DISTANT EXPORTERS. THE VERY HIGH IMPORT FEES ENVISIONED UNDER THE BILL WOULD HAVE A DEPRESSING EFFECT ON THE WORLD MARKET PRICE, LEADING TO A NEED TO RAISE THE FEE AND FURTHER DEPRESSING THE WORLD PRICE. THAT IS, WE WOULD BE CHASING A MOVING TARGET.

5. HOWARD HJORT, DIRECTOR OF ECONOMICS AT THE DEPARTMENT OF AGRICULTURE TESTIFIED WITH ASSISTANT SECRETARY KATZ ON MAY 11. HJORT OUTLINED THE CONTINGENCY PROGRAM WHICH THE ADMINISTRATION WILL PROPOSE -- A PROGRAM WHICH IS BOTH CONSISTENT WITH THE ISA AND RESPONSIVE TO THE NEEDS OF U.S. PRODUCERS. THE PROPOSAL PROVIDES FOR A CONTINUATION OF THE CURRENT MARKET PRICE TARGET WITHIN THE U.S. OF 13.5 CENTS PER POUND. DIRECT PAYMENTS WOULD BE MADE TO SUGAR PRODUCERS EQUAL TO THE DIFFERENCE BETWEEN THIS MARKET PRICE AND THE AVERAGE COST OF PRODUCTION, WHICH WAS

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DETERMINED TO BE 14.05 CENTS FOR 1978. THUS, IN 1978 (IF THE ADMINISTRATION PROPOSAL WERE ENACTED) 0.5 CENTS WOULD BE PAID TO PRODUCERS BY THE USG FOR EACH POUND OF RAW SUGAR PRODUCED. THE ESTIMATED COST OF PRODUCTION AND THUS THE LEVEL OF DIRECT PAYMENTS WOULD INCREASE ANNUALLY, PROBABLY AT ABOUT ONE CENT PER POUND. BUT THE MARKET PRICE WOULD REMAIN AT 13.5 CENTS.
UNCLASSIFIED

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PAGE 05 STATE 123837

6. HJORT TESTIFIED THAT AS LONG AS THE WORLD PRICE OF SUGAR REMAINED BELOW THE U.S. PRICE OBJECTIVE (13.5 CENTS), IMPORT FEES WOULD BE NECESSARY. HJORT SAID THAT UNDER THE ADMINISTRATION'S PROPOSAL, THESE FEES WOULD BE ADJUSTED QUARTERLY. HE STRESSED THAT WE REGARD IMPORT FEES AS A TEMPORARY DEVICE TO ASSURE ATTAINMENT OF OUR DOMESTIC PRICE OBJECTIVE DURING THE INTERIM PERIOD UNTIL THE ISA CAN BECOME EFFECTIVE IN RAISING THE WORLD PRICE (ADJUSTED FOR FREIGHT, ETC.) TO THE 13.5 DOMESTIC PRICE TARGET.

7. HJORT THEN EXPLAINED THE RELATIONSHIP BETWEEN THE CURRENT SUGAR PRICE SUPPORT LEGISLATION AND THE ADMINISTRATION'S PROPOSALS. THE DE LA GARZA AMENDMENT (TO THE 1977 FOOD AND AGRICULTURE ACT) DIRECTS THAT A LOAN PROGRAM BE MAINTAINED THAT WOULD HAVE THE EFFECT OF KEEPING THE U.S. MARKET PRICE AT A MINIMUM OF 13.5 CENTS PER POUND FOR THE CROP YEAR ENDING JUNE 30, 1977. HJORT NOTED THAT UNLESS IT IS SUPERSEDED BY NEW LEGISLATION, WE WILL STILL BE REQUIRED TO CARRY OUT THE PROVISIONS OF THIS EXISTING LEGISLATION. HJORT THEN ESTIMATED THAT THE LOAN PROGRAM BEGINNING JULY 1, 1978, WOULD BE AIMED AT MAINTAINING U.S. DOMESTIC PRICE AT ABOUT 14.4 CENTS PER POUND, RAW VALUE.

8. IN DRAWING ON ABOVE MATERIAL, POSTS SHOULD STRESS THAT THE ADMINISTRATION'S PROPOSALS FOR A DOMESTIC PROGRAM ARE CONSISTENT WITH U.S. OBLIGATIONS UNDER THE ISA AND ARE DESIGNED TO INSURE THAT THE OPERATION OF THE U.S. DOMESTIC PROGRAM IS COMPATIBLE WITH ISA. BY SEEKING TO MAINTAIN A CONSTANT MARKET PRICE OF 13.5 CENTS, WE WOULD EXPECT THAT WITH QUARTERLY ADJUSTMENTS OF IMPORT FEES, THE LEVEL OF U.S. BORDER PROTECTION COULD BE PROGRESSIVELY REDUCED AS THE

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PAGE 06 STATE 123837

ISA TAKES HOLD AND THE WORLD PRICE BEGINS TO RISE.

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9. THE ADMINISTRATION PROGRAM WILL REQUIRE LEGISLATION, HOWEVER, UNTIL SUCH LEGISLATION IS PASSED, THE DE LA GARZA AMENDMENT WILL REMAIN IN FORCE, AT LEAST UNTIL IT EXPIRES WITH THE END OF MARKETING OF 1978 CROP

U.S. SUGAR (EFFECTIVELY EARLY IN 1979). A NEW PRESIDENTIAL PROCLAMATION MAY BE ISSUED SOON, SETTING 1978 CROP SUPPORT LEVELS. IT IS TOO SOON TO BE CERTAIN WHETHER THIS WILL RESULT IN A CHANGE IN THE PRESENT U.S. DUTY/FEE STRUCTURE. IN THE MEANTIME, THE ADMINISTRATION CONTINUES TO SUPPORT STRONGLY THE ISA, AND WE BELIEVE THAT RATIFICATION WILL TAKE PLACE IN A TIMELY MANNER. VANCE

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Message Attributes

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